

**F**rom 1 January 2020, GST will be applied on business-to-business (B2B) imported services

and business-to-consumers (B2C) imported digital services in Singapore by way of a reverse charge mechanism and an overseas vendor registration (OVR) regime respectively.

Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax and Business Process Solutions Leader, Deloitte South East Asia and Singapore, shared his insights on the new GST regimes and highlighted practical challenges and risk areas to look out for at a recent *Tax Excellence Decoded* session organised by the [Singapore Institute of Accredited Tax Professionals \(SIATP\)](#).

## Reverse Charge

### OVERVIEW AND SCOPE

Under the reverse charge mechanism, a GST-registered person who belongs in Singapore and receives services from outside Singapore must account for GST on the value of its imported services as if it were the supplier of those services. This is the case unless the recipient is fully taxable, or such services are excluded from the scope of reverse charge (such as exempt supplies, zero-rated supplies, certain non-taxable government supplies or certain services acquired that are directly attributable to taxable supplies). The GST-registered person may then claim the corresponding GST as its input tax, subject to its normal input tax recovery rules.

Non-GST registered recipients of supplies of imported services must also be mindful of the new reverse charge mechanism, as they may become liable for GST registration by virtue of the reverse charge rules. Once registered, they, too, would be required to apply reverse charge and account for GST on their imported services.

Essentially, reverse charge is applicable to two groups of taxpayers:

- (i) GST-registered persons who procure services from overseas suppliers and are not entitled to full input tax credit or who belong to GST groups that are not entitled to full input tax credit, or
- (ii) Non-GST registered persons who procure services from overseas suppliers exceeding S\$1 million in a 12-month period and who would not be entitled to full input tax credit even if GST-registered.

Partly exempt businesses such as banks, financial services firms, residential property developers, educational institutions and charities are expected to be among the most affected by the introduction of reverse charge.

It is important to note that inter-branch transactions and intra-GST group transactions will also be subject to reverse charge where the recipient is not able to recover all of its input tax. In other words, reverse charge will apply to supplies between a partly exempt Singapore branch and its foreign head office, between a domestic member and a foreign member of a partly exempt GST group, or between a partly exempt local and an overseas partnership sharing the same composition of partners.

## FILING AND RECORD KEEPING

Starting in 2020, the GST return will include a new field to report the value of imported services subject to reverse charge. In addition, businesses also need to report the value of output tax to be accounted for on the imported services and the value of input tax claimable on the imported services in their tax returns.

To substantiate the reverse charge transactions and the corresponding input tax claims made in the GST returns, businesses must ensure that the following documents are properly retained:

- (i) Overseas supplier invoices;
- (ii) Transactional listings for reverse charge;
- (iii) Evidence of payment, accounting system records or journal entries to support the reverse charge transactions;
- (iv) Contracts or agreements with the overseas supplier, and
- (v) Input tax apportionment workings.

To reduce errors, businesses should consider modifying their accounting systems to identify reverse charge transactions (such as designating specific tax codes to record reverse charge transactions). It is also best practice for information on the contractual parties, types of transactions and location of the establishment supplying the services to be clearly stated in the contracts with overseas suppliers.

## PRACTICAL ISSUES

### ***Determine the requirement to register for GST***

Businesses that are not currently liable for GST registration and are not fully taxable may be caught under reverse charge rules for GST registration. For such businesses, it is important to start identifying overseas vendors and imported services that are within the scope of reverse charge. The value of in-scope imported services should then be aggregated to determine whether GST registration is required, subject to specific exemption rules.

### ***Make transitional arrangements***

Businesses must identify all imported services and payments straddling 1 January 2020

and calculate the value of imported services subject to reverse charge. As the potential GST costs arising from reverse charge may be significant, there is a need for businesses to plan ahead and budget for these additional costs early to avoid unwanted surprises. Businesses should also ensure that documents and listings are complete and “audit ready”.

To reduce costs and to avoid the hassle of transitional arrangements for reverse charge, businesses may want to consider making full payments to their suppliers before 1 January 2020 where possible. Separately, businesses may also consider liaising with overseas suppliers to issue invoices for services completed up to 31 December 2019 to ensure a clear demarcation between pre- and post-implementation of reverse charge.

### ***Set up the system for reverse charge***

Businesses need to review their vendor database to differentiate the local and overseas vendors. New tax codes should then be created, where necessary, to segregate transactions where reverse charge is applicable.

Multinational groups must be especially cautious and ensure that all cross-border related party transactions are properly captured as inter-branch transactions and intra-GST group transactions are subject to reverse charge. Finally, it would be wise for businesses to set aside sufficient time for system testing and staff training prior to the actual rollout of the system, to ensure a smooth transition to reverse charge.



Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Leader, Deloitte South East Asia and Singapore, shared insights on Reverse Charge And Overseas Vendor Registration.

### OVERVIEW AND SCOPE

Under the OVR regime, overseas vendors providing digital services to non-GST registered customers in Singapore will charge and account for GST on such services. This regime affects overseas vendors and electronic marketplace operators (both domestic and foreign) providing B2C supplies of digital services to Singapore non-GST registered consumers.

For the purposes of the OVR regime, digital services are defined as services supplied over the Internet or an electronic network and the nature of which renders the supply essentially automated with minimal or no human intervention, and impossible without the use of information technology.

The OVR regime mainly covers downloadable content, subscription-based media, software programmes and electronic data management. also agree contractually that the marketplace is liable for GST. Support services performed via electronic means to arrange or facilitate a transaction may be included as well, even if the underlying service is not digital. For example, subscription fees for a website facilitating the purchase of financial services will be subject to OVR.

Foreign suppliers must register under the OVR regime if their annual global turnover exceeds S\$1 million and they make more than S\$100,000 of B2C supplies to customers in Singapore per calendar year. Registration is also required if the foreign supplier expects that the above thresholds will be exceeded in the next 12 months.

#### ***Customer belonging status is key***

Under the OVR regime, overseas vendors are required to determine whether the digital services are supplied to customers belonging in Singapore. Specifically, overseas vendors are required to obtain at least two pieces of non-conflicting evidence of the customers' belonging status, comprising one payment proxy (such as credit card information or bank account details) and either a residence proxy (such as billing address or home address) or

access proxy (such as IP address or mobile country code).

#### ***Electronic marketplaces***

Electronic marketplace operators are regarded as the supplier of digital services if they authorise the charge or the delivery of supply to customers, set the terms and conditions under which the supply is made, or are identified as the supplier in the documentation provided to the customer (instead of the merchant). The electronic marketplace and the merchant may also agree contractually that the marketplace is liable for GST.

Electronic marketplace operators are required to charge and account for GST on supplies of digital services made on behalf of the overseas suppliers listed on their platforms to non-GST registered customers in Singapore, in addition to their own taxable supplies. Local GST-registered suppliers that make supplies of digital services through the electronic marketplace will continue to account for GST in their respective GST returns.

### FILING AND RECORD KEEPING

Overseas suppliers under the pay-only regime will file simplified GST returns. Any errors made are to be corrected in the next GST return; businesses are not required to file GST F7 (for disclosure of errors).

On recordkeeping, suppliers are expected to maintain business and accounting records for five years to support the GST collected from all supplies made in Singapore. No invoicing and pricing display requirements are imposed on the suppliers.

## PRACTICAL ISSUES

### ***Determine the requirement to register for GST***

Overseas suppliers of B2C digital services need to determine whether they are obliged to be registered under the OVR regime. First, they must identify the customers belonging in Singapore and then determine if the digital services supplied to such Singapore customers fall within the definition provided in the IRAS e-Tax Guide, "[GST: Taxing imported services by way of an overseas vendor registration regime](#)".

Overseas vendors that supply both directly to Singapore customers and through digital marketplaces should segregate their supplies, as digital services supplied through the marketplaces are excluded when determining the overseas vendors' GST registration liabilities.



Accredited Tax Advisor (GST) Richard Mackender clarified doubts on the new GST regimes.

### ***Set up the system for OVR regime***

To accurately determine whether digital services are supplied to customers belonging in Singapore, businesses will need to modify their accounting system and customer database to capture and analyse key customer information in order to establish the two pieces of non-conflicting evidence (comprising one payment proxy and either a residence proxy or access proxy) as required under the OVR rules. Ideally, the system should also keep track of customers' GST registration to avoid charging GST on such services provided to GST-registered customers.

Finally, to reiterate, do allocate time to test the system in the run-up to implementation. Remember, GST is transactional and an erroneous transaction could be repeated.

Guard your GST risks.

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For more tax insights, please visit [www.siatp.org.sg](http://www.siatp.org.sg)

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